Ameren Utilities' View on Implementing the Governor's Plan

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Background On Ameren Corporation

- Ameren Corporation is a registered holding company that owns and operates four utilities, serving in Missouri and Illinois: AmerenCIPS, AmerenCILCO, AmerenIP and AmerenUE
- 1.2 million electric customers served in Illinois
- Ameren Corporation also has unregulated generation and marketing businesses

Governor's RPS Plan

- Applicable to Utilities and ARES
- 2% of energy sales in 2006, increasing 1% annually until, in 2012, 8% is generated by renewable resources
- 75% of renewables to come from wind
- For Ameren Utilities' Illinois control area, the Plan would require wind renewables of 225 MW in 2006, growing to 950 MW in 2012
- Assures full cost recovery

Key ICC Considerations for Implementing Governor's Plan

- Load uncertainty of Utility and ARES portfolios
  - Types of load uncertainty includes switching risk, weather variability, economic
  - Wind developers need long term contracts
- ICC needs to ensure resources are available in order to meet 2% target for 2006, and RPS in future years
  - Developers and equipment vendors are better able than Utilities to assess resource availability

Key ICC Considerations for Implementing Governor's Plan (Cont'd)

- ICC must consider 2006 RPS requirements on existing supply contracts serving Utilities through 2006
- ICC should consider usefulness of renewable targets using Megawatt hours as a measure, and should also consider capacity measures/targets and other metrics
- Limiting resources to only those produced in Illinois limits use of potentially less expensive resources produced in other states
- Need to consider Renewable Energy Credits as compliance measure, and promote trading and marketing environment
- Several operational matters to be considered

Ameren Utilities' RPS Method

- Distribution Utilities become Responsible for All Procurement of Renewables in Illinois
  - Allows for longer term contracts with Renewable Energy Developers (Developers), which may minimize overall RPS cost to customers
    - Buying in bulk may result in lower cost
    - Should aid Developers in obtaining lower financing costs
  - Utility would base "RPS Requirements" on Delivery Services (DS) load
    - Reduces risk of load uncertainty since all customers will take DS
    - Easier to monitor compliance with RPS rules
  - All RPS costs recovered in charges applicable to all DS customers

How Would Utilities Manage RPS Under the Alternative Method?

We have not worked through all the specifics, but have identified possible Scenarios

- **Scenario 1:** Utility enters into bilateral contracts with Developers to provide physical energy
  - Utility would sell into energy market
- **Scenario 2:** Utility contracts for RPS on basis of "difference" between market price and RPS supply cost
  - Contract is more financial than physical

Ameren Utilities' RPS Method

- The advantages of Scenarios 1 and 2
  - The ICC, Utility and other interested stakeholders can monitor RPS compliance
  - The purchase of RPS energy does not alter the Post-06 declining clock auction process
  - The Developers have certainty of long-term contracts
  - State energy policy is implemented efficiently
  - ARES are not involved in meeting an RPS

How Scenario 1 Works

Utility enters standard contracts with Developers

- ICC preapproves process
- Utility pays fixed contract price to Developers for all Megawatt hours delivered over life of contract
- Developers provide physical energy to utility
  - Utility sells renewables energy into energy market
- Utility computes for each month, the difference between: 1) Payments to Developers; and 2) Proceeds from selling such energy into market
  - Difference is either a credit or a charge on DS customer bills

How Scenario 2 Works

Utility enters into financial contract for RPS energy at a specified renewable price

- ICC preapproves process
- Developer sells into the energy market
- Developer and Utility set daily on a "formula" that will compute the difference between:

  1) the Fixed RPS unit price; and

  2) the revenue received by Developer from sale into energy market

  - During periods of high prices in energy market, Utility could receive a credit (when the market price exceeds the renewables price)
  - Difference is either a credit or a charge on DS customer bills

Which Scenario Is Best?

Ameren Utilities prefer the simplicity of Scenario 2

- Scenarios 1 and 2 may produce similar financial costs, however;
  - Scenario 2 eliminates the extra step of the Utility taking physical ownership of the energy
    - Could impose additional costs on transaction
  - The Ameren Utilities do not have a trading shop to manage the deliveries and resale into the energy market

Benefits of Ameren Utilities' RPS Method

- **Regulatory Oversight Enhanced**
  - RPS compliance monitoring is simplified under alternate method
  - Maintains regulatory oversight of renewable energy with those entities-the Utilities- that the ICC regulates
- **Competitive Market Development**
  - Allows ARES to freely compete for customers and load using all available energy resources
  - All customers participate in "renewables" equally
  - The alternative method does not impact bidding or supply strategies of auction suppliers

Benefits of Ameren Utilities' RPS Method (cont'd)

- **Developer and Environmentalist Perspective**
  - Should result in more certainty for renewables project development
    - Utility being responsible for all RPS contracting provides funding certainty, increasing likelihood of favorable financing
  - Renewable energy will reduce reliance on traditional generation in region
- **Customer Perspective**
  - Equitable allocation of cost responsibility

Benefits of Ameren Utilities' RPS Method (cont'd)

- Combining RPS with the Post-06 Auction Process is Avoided
  - Increments of a % of each traunche may be too small for a supplier to economically procure
  - Each supplier's contract would expire each 1 to 3 years, limiting opportunity for suppliers to enter into RPS contract terms longer than 3 years
  - Prices resulting from auction process may result in higher cost to Utility customers if required to include renewable energy due to wind availability
  - Difficult to monitor RPS compliance across dozens of tranches and suppliers

Consumer Protections

- Customers will only pay for renewable energy produced
- RPS energy should be procured in a competitive process pre-approved by the ICC
- RPS cost recovery in DS rates will be subject to review by ICC to be certain that RPS costs are accurately recovered in rates
  - DS rates will include a reconciliation formula to synchronize DS charges with RPS costs

Energy Efficiency Standards

- There should be multiple options for each revenue class
- Process and impact evaluation should be independent and focused on process improvement
- Collaborative teams consisting of all stakeholders should have input into program development
- Competitively procure programs

Energy Efficiency Standards (cont'd)

- Focus on implementing programs that are effective
- Recognize that demand response differs from energy efficiency; consider different metrics, different evaluation parameters for demand response
- Assurance of full cost recovery